MICC INVESTMENTS LIMITED 1977 annual report

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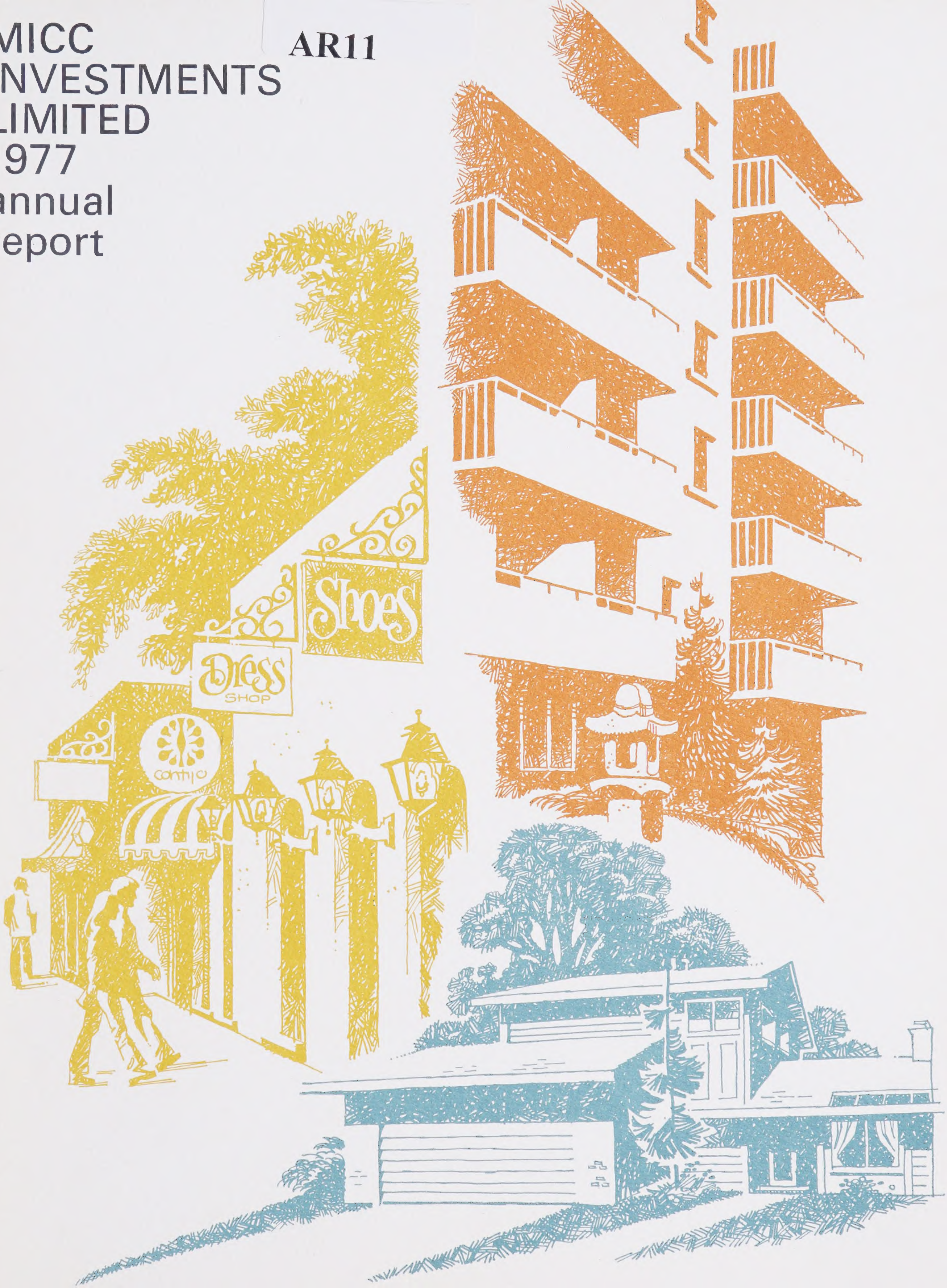


Si vous désirez recevoir ce rapport annuel en français, veuillez vous adresser au :

Secrétaire
MICC Investments Limited
C.P. 14, 401 rue Bay, chambre 1212
Toronto, Ontario M5H 2Y4

MICC Investments Limited is a public company whose shares are listed on the Toronto and Montreal stock exchanges. As at December 31, 1977 over 99% of its outstanding common shares were held by shareholders of record with addresses in Canada. Its principal operating subsidiary is The Mortgage Insurance Company of Canada (MICC).

MICC was incorporated by Act of Parliament passed in December 1963 and commenced operations in June 1964. It is licensed and operates in each of the provinces. MICC's activities fall under the jurisdiction of the Federal Department of Insurance whose staff carry out regular inspections and whose approval is obtained for all insurance programs.

MICC is engaged in the business of providing financial guarantees in the real estate market. Under its first mortgage program, protection is provided to mortgage lenders and investors against losses on mortgage loans covering houses (including condominium units), rental projects, commercial and industrial properties and vacation homes. The company also insures second mortgages on houses and income properties. MICC also offers a lease guarantee program under which lessors of commercial and industrial real estate are insured against loss through failure of a tenant to pay rent. In addition, MICC insures the New Home Warranty Programs in Ontario and Quebec for their obligation to reimburse homeowners against loss of deposit and cost of major structural repairs to homes. MICC also provides an inspection and appraisal service for a fee to mortgage lenders.

MICC now has over 13 years' experience and has developed a staff highly skilled in mortgage underwriting. More than 400 mortgage lenders use its services, including most major financial institutions in Canada.

Board of Directors
(as at February 28, 1978)

MICC Investments Limited and The Mortgage Insurance Company of Canada

Robert A. Bandeen
Canadian National, Montreal, Quebec

***T. A. Boyles,** Honorary Chairman
The Bank of Nova Scotia, Toronto, Ontario

R. C. Brown, Partner
Blake, Cassels & Graydon, Toronto, Ontario

John Cochran, President
Domtar Construction Materials Ltd., Montreal, Quebec

***Harold Corrigan,** President
Alcan Canada Products Limited, Toronto, Ontario

S. E. Eagles, President and Chief Executive Officer
Marathon Realty Company Limited, Toronto, Ontario

***Gardner English,** President
Kopas & Burritt Funding Incorporated, Toronto, Ontario

Max H. Karl, Chairman and Chief Executive Officer
MGIC Investment Corporation, Milwaukee, Wisconsin, USA

Peter Kilburn, Chairman
Greenshields Incorporated, Montreal, Quebec

***Raymond Lavoie,** President and Chief Executive Officer
Credit Foncier Franco-Canadien, Montreal, Quebec

***Fred H. McNeil,** Chairman and Chief Executive Officer
Bank of Montreal, Montreal, Quebec

***Reginald T. Ryan,** President
MICC Investments Limited, Toronto, Ontario

R. T. Scurfield, President
Nu-West Development Corporation Ltd., Calgary, Alberta

G. D. Sutton, President
Canadian Enterprise Development Corporation Limited, Toronto, Ontario

C. L. Townend, Company Director,
West Montrose, Ontario

G. J. van den Berg, Company Director
Beaconsfield, Quebec

***B. G. Willis,** Executive Vice-President
Greenshields Incorporated, Toronto, Ontario

*Member of the Executive Committee of MICC Investments Limited

Executive Officers

MICC Investments Limited

Reginald T. Ryan, President

David C. Toms, Secretary-Treasurer

The Mortgage Insurance Company of Canada

Reginald T. Ryan, President

James McAvoy, Vice-President

John McCreadie, Vice-President

David C. Toms, Secretary-Treasurer

Georges W. Carpentier, Assistant Vice-President

Barry A. Morrison, Assistant Vice-President

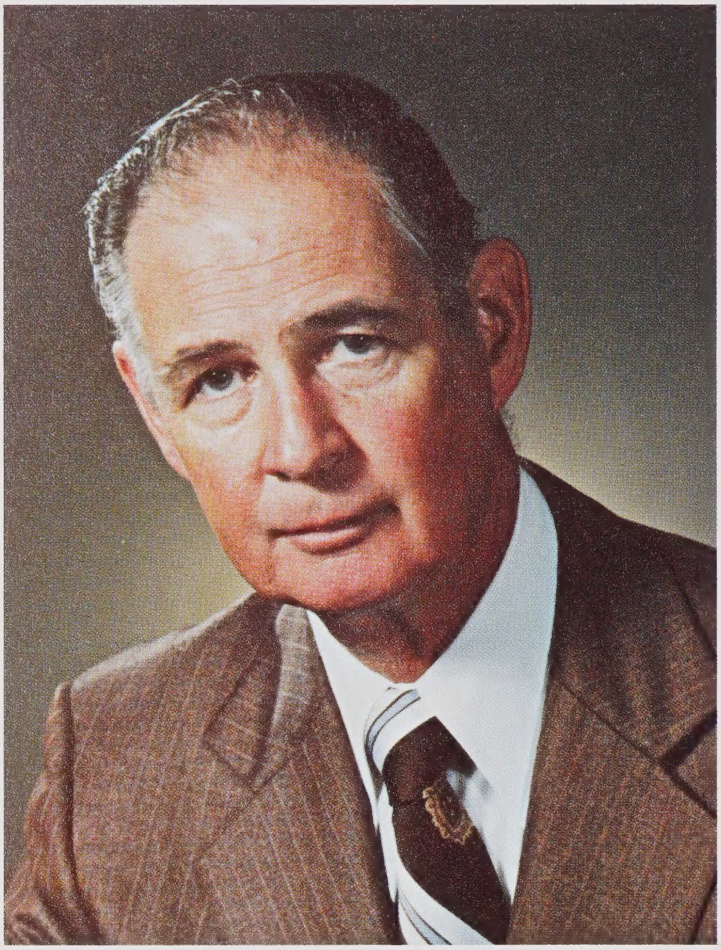
MICC

Highlights for the year

	1977	1976	% change
	$	$	%
Premiums Written	33,203,376	20,177,102	64.6
Underwriting Revenue	15,182,940	11,327,039	34.0
Investment Income	14,796,218	12,110,420	22.2
Losses on Claims Incurred	8,809,506	3,990,855	120.7
Net Earnings (before realized investment gain or loss)	12,986,069	11,820,644	9.9
Net Earnings	14,758,462	11,937,134	23.6
Net Earnings Available to Common Shareholders	12,537,592	10,445,009	20.0
Total Assets	221,755,996	167,560,020	32.3
Shareholders' Equity	106,659,291	85,613,858	24.6

Earnings Per Common Share (before realized investment gain)	$1.88	$1.81	3.9
Earnings Per Common Share	$2.19	$1.83	19.7
Common Dividends Paid	37¼¢	24½¢	52.0

President's Report to Shareholders



I am pleased to report that 1977 was another growth year for MICC Investments Limited despite being a year of high unemployment and less than buoyant economic conditions throughout much of the country. Earnings before realized gains on investments increased to \$12,986,069 from \$11,820,644 in 1976, equal to \$1.88 per common share compared to \$1.81 per common share last year. Net earnings amounted to \$14,758,462 equal to \$2.19 per common share. Consolidated assets increased 32.3% to \$221,755,996 from \$167,560,020 at December 31, 1976.

The Mortgage Insurance Company of Canada, the Company's principal subsidiary, broke all previous records in 1977 for new business. Potential premiums from business committed under Canadian mortgage insurance and lease guarantee programs totalled \$43,024,254, an increase of 55.8% over the 1976 figure of \$27,611,619. Net premiums written totalled \$33,203,376 compared to \$20,177,102 in 1976, an increase of 64.6%. Details are set out in the Review on Operations, page 15.

Claim losses increased from \$3,990,855 in 1976 to \$8,809,506 in 1977 and represented 58.0% of underwriting revenue compared to 35.2% in 1976. Given that conditions in the real estate market are more directly affected by unemployment than other sectors of the economy and are generally governed by the prevailing economic climate, the increase in claim losses in 1977 was not unexpected. It should also be borne in mind that MICC insurance in force has increased over the past three years from approximately \$3.6 billion at the end of 1974 to approximately \$8.4 billion at the end of 1977, an increase of 133%.

Through our expanded regional office system which has enabled us to strengthen underwriting and claims administration and with vigorous attention to mortgage collections by our approved lenders, management is confident that claims losses can be kept within acceptable limits. A detailed analysis of defaults, claims and real estate acquired through settlement of claims will be found on page 23.

We continue to be pleased with the performance of our investment portfolio which increased 27.2% to \$200,935,733 at year-end from \$157,923,814 at December 31, 1976. Although return on investment decreased marginally from 1976, the value of securities held in the portfolio, in relation to cost, improved considerably again this year. Details of the investment portfolio of the insurance company are contained on page 19.

In the spring of 1977, in order to provide additional capital for the insurance company, MICC Investments Limited raised \$10 million through a private placement of \$5 million of cumulative preferred shares and \$5 million of income debentures. It is Company policy to try to have capital available

for the insurance company 12 to 18 months in advance of requirement. Because of a strong upward trend in new business written in 1977 and anticipated continued growth of new business volume this year, plans are in process for a new preferred share issue in the spring of 1978.

During the year the Company paid $2,220,870 in dividends to preferred shareholders. Common dividends of 6½¢ per share were paid in the first three quarters of the year, and with the third quarter dividend, a payment of 9¢ per common share was also declared and paid, in accordance with an Anti-Inflation Board Technical Bulletin issued in May. The final dividend for the year was 8¾¢. In February of 1978 the Company received permission from the Anti-Inflation Board to increase its common dividend and the March 1978 dividend was declared at 11¢ per share. Permission has been received to increase the June dividend up to 13¢ per share and the September dividend up to 15¢ per share. Actual dividends to be paid on these dates will be considered by Board in due course.

During 1977, 460 acres of land, owned by the Company's subsidiary, Charlotte Properties Limited, were sold for a total consideration of $449,000. We are confident that our investment in this company, which at year-end amounted to $525,200, will be fully recovered.

In 1977, 245,724 dwelling units were started in Canada, a higher level than had been predicted a year ago. This was the result of an abundant supply of mortgage money, lower interest rates and the popularity of two Federal Government programs – the Assisted Home Ownership Program (AHOP) and the Assisted Rental Program (ARP). In total, these two programs accounted for approximately 62,619 starts. Activity in the re-sale market was stronger than in 1976, paralleling our own experience which saw volume of commitments relating to existing housing increase by 68.5% over the previous year. However, it was a buyers' market in most areas and throughout much of the country house prices were relatively stable.

The consensus is that Canada's economy will show some modest improvement in 1978 but unfortunately, the path to a lower level of unemployment is going to be an arduous one. The prospects for achieving a lower level of inflation in 1978 are far from certain, after a disappointing rate of increase of 9.5% in 1977. With continuing high inventories of new housing in many areas and indications that the Federal programs, AHOP and ARP, will not be used as extensively, 1978 will probably see a lower level of new housing starts than we had in 1977. This would be desirable both for the industry and the market place. In our view, it is likely that new housing starts for 1978 will decline to 225,000 units, a decrease of approximately 10% from 1977.

Looking forward to 1978, we expect a continuing good supply of mortgage funds with possibly some minor increase in interest rates. These factors, together with improvements and extensions to our insurance programs, and with a large carryover of potential premiums from new business committed but not funded in 1977, should result in a high level of new premiums being written. In the light of current economic forecasts and a rapidly growing portfolio of insurance in force we expect that MICC will be called upon to settle an increasing number of claims again this year. Your management is confident, however, that 1978 will be another year of satisfactory achievement.

During the year, Mr. John Toole, one of the original directors of The Mortgage Insurance Company of Canada, retired from active business and resigned from the Board of Directors. Three other directors, Messrs. T. A. Boyles, M. H. Karl and C. L. Townend, are retiring from the Board at this year's Annual Meeting. I would like to record sincere appreciation to these four men for the contribution they have each made during the years they served as Board members. To fill the vacancy created by the resignation of Mr. Toole, the directors have elected Mr. Robert A. Bandeen.

During 1977, our staff was called upon to deal with a substantial increase in business. This they have done capably and with enthusiasm. I would like to thank each of them sincerely for a fine effort.

R. T. Ryan
President
MICC Investments Limited

Consolidated balance sheet

as at December 31, 1977

		1977	1976
Assets		$	$
Cash and accounts receivable	Cash	1,702,841	630,580
	Interest accrued and sundry receivables	2,295,896	1,955,338
	Premiums receivable	2,641,727	1,500,000
	Income taxes recoverable	1,267,470	—
	Foreign income taxes recoverable	106,596	47,606
	Due from other insurance companies	24,114	1,357
		8,038,644	4,134,881
Real estate (note 2)		11,632,805	4,362,420
Investments	Treasury bills and other short-term securities – at cost	25,111,390	9,337,538
	Bonds and debentures – at amortized value (market value $62,082,782; 1976 – $48,739,340)	63,480,227	49,992,443
	Preferred stocks – at market value (cost $62,582,856; 1976 – $64,960,586)	66,989,074	64,828,491
	Common stocks – at market value (cost $37,077,235; 1976 – $28,216,726)	42,129,339	29,778,982
	Mortgages – at amortized value	2,700,503	3,461,160
	Charlotte Properties Limited	525,200	525,200
		200,935,733	157,923,814
Other assets	Loan to trustees under employee stock purchase plan	188,449	234,465
	Other	244,208	180,098
	Capital expenses – at amortized cost (notes 4 and 5)	716,157	724,342
		1,148,814	1,138,905
		221,755,996	167,560,020

Signed on behalf of the Board

R. T. RYAN, Director

B. G. WILLIS, Director

		1977	1976
Liabilities		$	$
Accounts payable	Due to other insurance companies	103,624	234,021
	Provision for claims	4,974,415	3,124,574
	Accounts payable and accrued liabilities	981,617	642,299
	Interest payable on income debentures	175,178	188,750
	Premium taxes payable	444,962	71,738
	Income taxes payable	—	132,684
	Due for securities purchased	2,650,435	32,138
		9,330,231	4,426,204
Other liabilities	Deferred revenue (note 3)	82,486,553	62,924,828
	Deferred income taxes	8,279,921	4,595,130
	Income debentures (note 4)	15,000,000	10,000,000
		105,766,474	77,519,958
		115,096,705	81,946,162
Shareholders' Equity			
Capital stock (note 5)	Authorized –		
	3,976,000 preferred shares of the par value of $25 each, issuable in series (1976 – 3,981,200)		
	10,000,000 common shares without par value		
	Issued and fully paid –		
	776,000 10% cumulative redeemable preferred shares Series A (1976 – 781,200)	19,400,000	19,530,000
	200,000 7¾% cumulative redeemable preferred shares Series B (1976 – nil)	5,000,000	—
	5,715,805 common shares (1976 – 5,711,080)	37,461,563	37,430,189
Retained earnings		37,588,498	27,273,508
		99,450,061	84,233,697
Unrealized gain on stocks		7,209,230	1,380,161
		106,659,291	85,613,858
		221,755,996	167,560,020

Consolidated statement of earnings

for the year ended December 31, 1977

		1977	1976
		$	$
Revenue	Net premiums written	33,203,376	20,177,102
	Application fees	2,264,609	1,440,688
	Commission income	16,844	19,697
	Inspection service and appraisal fees	88,864	21,083
		35,573,693	21,658,570
	Less: Increase in deferred revenue	20,390,753	10,331,531
	Underwriting revenue	15,182,940	11,327,039
	Investment income –		
	Interest and amortization	5,615,851	4,722,080
	Dividends	8,710,841	7,401,371
	Other (note 7)	469,526	(13,031)
		14,796,218	12,110,420
		29,979,158	23,437,459
Expenses	Insurance underwriting and policy issuance expenses	3,094,069	2,345,051
	Premium taxes	772,037	453,242
		3,866,106	2,798,293
	Less: Increase in deferred expenses	966,627	930,981
		2,899,479	1,867,312
	Losses on claims incurred	8,809,506	3,990,855
	Other operating expenses	1,470,114	1,208,630
	Income debenture interest and amortization expense (note 4)	983,610	787,880
		14,162,709	7,854,677
Earnings before income taxes		15,816,449	15,582,782
Provision for income taxes	Current	1,354,120	2,131,258
	Deferred	1,476,260	1,630,880
		2,830,380	3,762,138
Earnings before realized investment gain		12,986,069	11,820,644
	Realized gain on disposal of investments (net of applicable income taxes)	1,772,393	116,490
Net earnings for the year		14,758,462	11,937,134
Earnings per common share	Earnings before realized investment gain	$1.88	$1.81
	Net earnings for the year	$2.19	$1.83
	Weighted daily average number of common shares outstanding	5,715,805	5,711,080

Consolidated statement of unrealized gain on stocks and retained earnings

for the year ended December 31, 1977

Unrealized gain on stocks

	1977	1976
	$	$
Unrealized gain (loss) on stocks – beginning of year	1,380,161	(3,781,160)
Unrealized gain on stocks for the year	8,028,161	5,211,321
	9,408,322	1,430,161
Deferred income taxes	2,199,092	50,000
Unrealized gain on stocks – end of year	7,209,230	1,380,161

Retained earnings

	1977	1976
	$	$
Retained earnings – beginning of year	27,273,508	18,278,476
Net earnings for the year	14,758,462	11,937,134
	42,031,970	30,215,610
Amortization of capital expenses, less related income taxes (note 5)	92,794	45,103
Expenses on purchase of preferred shares	670	5,659
Cash dividends –		
Preferred	2,220,870	1,492,125
Common	2,129,138	1,399,215
	4,443,472	2,942,102
Retained earnings – end of year	37,588,498	27,273,508

Consolidated statement of changes in financial position

for the year ended December 31, 1977

		1977	1976
		$	$
Source of funds	Operations –		
	Net earnings for the year	14,758,462	11,937,134
	Increase in net deferred revenue (note 3)	19,561,725	9,400,550
	Income taxes deferred	1,456,038	1,630,880
	Depreciation and amortization	101,829	69,752
	Funds generated from operations	35,878,054	23,038,316
	Common shares issued	31,374	—
	Preferred shares issued (net of expenses)	4,951,495	19,279,738
	Debentures issued (net of expenses)	4,951,045	—
	Increase in accounts payable	4,904,027	—
	Decrease in loan to trustees under employee stock purchase plan	46,016	32,835
	Other	20,222	51,381
		50,782,233	42,402,270
Use of funds	Increase in real estate	7,270,385	1,039,670
	Increase in cash and accounts receivable	3,903,763	257,670
	Decrease in accounts payable	—	2,223,619
	Purchase of fixed assets	143,649	87,344
	Dividends –		
	Preferred shares	2,220,870	1,492,125
	Common shares	2,129,138	1,399,215
	Purchase of preferred shares	130,670	475,659
		15,798,475	6,975,302
Funds available for investment		34,983,758	35,426,968
Investment funds – beginning of year		157,923,814	117,285,525
		192,907,572	152,712,493
	Unrealized gain on stocks for the year	8,028,161	5,211,321
Investment funds – end of year		200,935,733	157,923,814

Notes to consolidated financial statements

For the year ended December 31, 1977

1. Accounting Policies

The accounts of MICC are included herein in accordance with generally accepted accounting principles. The application of these principles is set out for the following significant items:

Principles of consolidation

The consolidated financial statements of MICC Investments Limited (the "Company") include the accounts of its subsidiary, The Mortgage Insurance Company of Canada ("MICC").

The accounts of Charlotte Properties Limited, a wholly-owned subsidiary, have not been consolidated as it is the company's intention to dispose of its investment in this company. This investment has been accounted for on the cost basis since December 31, 1976.

Premiums

Net premiums written are deferred and then taken into underwriting revenue as earned over the life of the related policies. Prior to 1974, the majority of policies were written for a term of fifteen years; since then the majority of policies have been written for twenty years. The rate or formula under which premiums are earned relates to the amount of risk in each year of coverage.

Application fees and commission income

Application fees received on insurance policies written and commission income received on reinsurance premiums ceded to a reinsurer are taken into income as received.

Underwriting and policy issuance expenses and premium taxes

Underwriting and policy issuance expenses and premium taxes in excess of application fees and commission income are deferred and then amortized against premiums as the premiums are earned.

Losses on claims incurred

Losses on claims incurred represents the difference between the amounts claimed by insureds and estimated recoveries from the sale of real estate. Provisions for losses are made when it is apparent that defaults by borrowers will result in claims. An additional provision, based on past experience, is also made on other loans in default.

Investment income

(a) Treasury bills and other short-term securities – Interest is recorded as income as it accrues. Realized gains and losses are taken into income.

(b) Bonds, debentures and mortgages – Interest is recorded as income as it accrues. The premium or discount between cost and maturity value is amortized into income over the period to maturity. A gain or loss on the sale of a bond, debenture or mortgage is deferred and then amortized over the term to maturity of the security sold.

(c) Stocks – Dividends are recorded as income on the ex-dividend date. Realized gains and losses on disposal of stocks, net of income taxes, are taken into income as a special item. Unrealized gains and losses on stocks are accounted for in a special statement (consolidated statement of unrealized gain on stocks), the balance of which is transferred to shareholders' equity.

2. Real Estate

Commencing in 1977, real estate acquired as a result of settling claims has been shown separately from investments on the balance sheet. This reclassification, which has been applied retroactively, has resulted in an adjustment to the prior year's comparative figures.

Real estate is carried in the accounts at its estimated realizable value after deduction of real estate commission and other sales related expenses.

3. Deferred Revenue

Deferred revenue consists of deferred premiums, after deduction of deferred underwriting and policy issuance expenses and premium taxes.

4. Income Debentures

Income debentures consist of three series. Series A and B, in amounts of $2,000,000 and $8,000,000 respectively, mature on September 30, 1981 with mandatory prepayment as to 33.4% on September 30, 1979 and 33.33% on September 30, 1980. Series C in the amount of $5,000,000 matures on September 30, 1985 with mandatory prepayent as to 33.34% on September 30, 1983 and September 30, 1984. Interest is payable at the rate of 8¼% on Series A debentures, at 50% of the prime bank rate, plus 2.5% on Series B debentures and at 7½% on Series C debentures. Interest on these debentures is not deductible in computing taxable income.

Costs incurred in connection with these issues have been capitalized and are being amortized against earnings on a straight-line basis over the terms of the debentures. As at December 31, 1977, unamortized capital expenses relating to income debentures amounted to $92,904.

5. Capital Stock

(a) Preferred shares

The company's authorized capital consists of 3,976,000 preferred shares of the par value of $25 each, issuable in series.

In 1976, 800,000 of these shares were issued as 10% cumulative redeemable preferred shares Series A for a cash consideration of $20,000,000. 776,000 of these shares were outstanding at December 31, 1977.

The 10% cumulative redeemable preferred shares Series A are subject to mandatory sinking fund redemption at par for:

(i) 24,000 shares on March 15, in each of the years 1977 to 1981 inclusive;

(ii) 56,000 shares on March 15 in each of the years 1982 to 1986 inclusive; and

(iii) 72,000 shares on March 15, 1987 and each year thereafter.

Commencing March 15, 1982 the company may increase any annual sinking fund by 24,000 shares. The company is entitled to anticipate sinking fund requirements by purchasing shares in the market at prices not exceeding the redemption price. Subsequent to March 15, 1981 the company may redeem shares not required for sinking fund purposes at a premium of 5%, declining annually thereafter to par value on March 15, 1986.

During 1977 the company acquired 5,200 preferred shares Series A to meet sinking fund requirements to March 15, 1977.

In 1977, 200,000 of these shares were issued as 7¾% cumulative redeemable preferred shares Series B for a cash consideration of $5,000,000.

The 7¾% cumulative redeemable preferred shares Series B are subject to mandatory sinking fund redemption at par for:

(i) 66,800 shares on March 31, 1983;

(ii) 66,600 shares on March 31, 1984 and March 31, 1985.

The company is entitled to anticipate sinking fund requirements by purchasing shares in the market at prices not exceeding the redemption price. Subsequent to March 31, 1982 the company may redeem shares not required for sinking fund purposes at a premium of 3%, declining annually thereafter to par value on March 31, 1985.

Costs incurred in connection with the issuance of preferred shares amounting to $768,767 have been capitalized and are being amortized against retained earnings over the estimated term of the shares on a weighted average basis. As at December 31, 1977, unamortized capital expenses relating to preferred shares amounted to $623,253.

(b) Common shares

During 1977, 4,725 common shares were issued for a cash consideration of $31,374 under the employee stock purchase plan.

15,675 common shares are reserved for allotment and issue to the trustee of the employee stock purchase plan.

A non-assignable stock option for the purchase of 10,000 common shares is held by a director of the company, and is exercisable until June 6, 1978 at a price of $16.75 per share.

6. Statutory Information

In accordance with the disclosure requirements of the Canada Corporations Act, fees and other remuneration paid to directors and officers were as follows:

Number of directors of the company	18
Aggregate remuneration as directors of the company	Nil
Aggregate remuneration as directors of MICC	$ 60,970
Number of officers of the company	2
Aggregate remuneration as officers of the company	Nil
Aggregate remuneration as officers of MICC	$113,680
Number of officers of the company who are also directors of the company	1

The aggregate remuneration paid to directors and senior officers as defined by The Securities Act of Ontario amounted to $353,475.

In addition, loans made to two officers, one of whom is also a director, under the employee stock purchase plan, amounted to $66,772 as of December 31, 1977.

7. Foreign Exchange

Assets and liabilities in United States dollars have been translated at the year-end exchange rate. Earnings have been translated into Canadian dollars at the average rate prevailing through the year.

The portion of the foreign exchange translation gain relating to the minimum capital required by insurance regulations in foreign jurisdictions is deferred. The remaining portion of the foreign exchange gain is reflected in the statement of earnings under other investments income (1977 gain $469,526; 1976 loss – $21,511).

8. Anti-Inflation Act

Under the Anti-Inflation Act the company is constrained with regard to the payment of dividends and its subsidiary, MICC, is constrained with regard to prices and compensation.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of MICC Investments Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings, unrealized gain on stocks and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

February 7, 1978

Transfer Agents

Preferred Shares	National Trust Company, Limited
Common Shares	The Canada Trust Company

Registrars

Preferred Shares	National Trust Company, Limited
Common Shares	Canada Permanent Trust Company

Auditors Coopers & Lybrand

The Mortgage Insurance Company of Canada

Balance sheet

as at December 31, 1977

		1977	1976
Assets		$	$
Cash and accounts receivable	Cash	1,654,205	607,239
	Premiums receivable	2,641,727	1,500,000
	Interest accrued and sundry receivables	2,295,511	2,071,706
	Due from other insurance companies	24,114	1,357
	Foreign income taxes recoverable	106,596	47,606
	Income taxes recoverable	1,424,828	193,210
		8,146,981	4,421,118
Deferred acquisition costs		3,658,736	2,692,109
Real estate		11,632,805	4,362,420
Investments	Bonds, debentures and stocks – at cost	173,892,963	145,753,613
	Mortgages	1,972,576	2,761,809
		175,865,539	148,515,422
		199,304,061	159,991,069

		1977	1976
Liabilities		$	$
Accounts payable	Due to other insurance companies	103,624	234,021
	Provision for claims	4,974,415	3,124,574
	Accounts payable and accrued liabilities	1,168,225	644,499
	Premium taxes payable	444,962	71,738
	Due on undelivered securities	2,650,435	32,138
		9,341,661	4,106,970
Reserves	Reserve for unearned premiums	86,145,289	65,616,937
	Additional policy reserve	8,295,667	6,195,199
	Reserve for unregistered reinsurance	322,380	359,168
		94,763,336	72,171,304
		104,104,997	76,278,274
Shareholders' Equity			
Capital stock	Authorized –		
	800,000 10% non-cumulative preferred shares with a par value of $100 each, redeemable at par		
	200,000 common shares with a par value of $100 each		
	Issued and fully paid –		
	300,000 preferred shares (1976 – 260,000 shares)	30,000,000	26,000,000
	108,145 common shares	10,814,500	10,814,500
Surplus		54,384,564	46,898,295
		95,199,064	83,712,795
		199,304,061	159,991,069

Signed on behalf of the board

R. T. RYAN, Director

B. G. WILLIS, Director

Review of Operations

New Business – Mortgage Insurance

First Mortgages

During 1977 the Company issued commitments-to-insure in the amount of $3,642,613,000, which when compared with the total for 1976 of $2,400,445,000 represents an increase in new business of 51.7%. This is the largest volume of business written by the Company in any one year to date. A detailed breakdown for the year is shown on page 21 and a review of these figures shows some interesting highlights.

For example, commitments on homeownership loans for new construction totalled $1,139,372,000, an increase of about $180 million or 18% over 1976, whereas on existing homeownership loans our total was $1,545,969,000, an increase of $628 million or 68% over the amount committed in 1976. Taken together, homeownership loans for 1977 totalled $2,685,341,000, an increase of about $809 million or 43% over 1976. Rental loans totalled $516,001,000, an increase of 103% over 1976. Commercial and industrial loans rose from $264,075,000 in 1976 to $433,998,000 in 1977, an increase of 64%. The total for vacation homes increased to $7,273,000, up 27% over last year.

The average insured high-ratio house loan per unit on new construction for the year was $45,635 as compared with $42,300 in 1976. The average loan per unit for existing high-ratio house loans reached $34,399 in 1977 compared with $30,300 in 1976.

In reviewing all MICC commitments for the year on homeownership loans it is found that approximately 80% of all cases covered were for loan amounts of $50,000 or less, and 43% of all loans were in the $30,000 to $45,000 category. It continues to be apparent that high-ratio house loans are utilized predominantly for house transactions in the moderate to middle price range. Loans were mainly written with amortization periods of 25 years. In fact this was the case in 88% of all loans insured. Only 10% were written for less than 20 years and 2% for more than 25 years.

Experience over the year has shown that MICC Gross Debt Service Ratios, i.e. the percentage of gross income used for mortgage payments and property taxes, have not changed significantly from the previous year. For example, the average Gross Debt Service Ratio in 1977 on high-ratio house loans was 23.9%, as compared with 24.8% for 1976. It is also interesting to note that Total Debt Service Ratio, i.e. the percentage of gross income used for mortgage payments, property taxes and all other instalment debts, was 29.7% for high-ratio loans this year and 30.3% last year.

Second Mortgages

The volume of business under these programs is still minimal. Statistics are provided on page 21.

Lease Guarantee Insurance

The Company issued commitments on 145 lease guarantee applications during 1977 for total aggregate rentals of

$33,799,000 as compared with 122 cases for $33,214,000 in 1976.

The increase in volume for the year is modest. However it is the view of the Company that this is a direct result of the general slowdown in activity in the commercial and industrial leasing field. Also, it is worth noting that the underwriting posture of the Company has been somewhat cautious because of the prevailing overall economic climate, and while this is reflected to some degree in all of the Company's programs, it can become even more evident in the lease guarantee area. Under the circumstances it is felt that the growth of new business written is quite acceptable. There is, however, good reason to believe that significant growth in this program will occur in the future as clients, particularly mortgage lenders, become more appreciative of the important features offered by it.

Potential Premiums

For the year ending December 31, total potential premiums for all programs amounted to $44,514,262. This amount compares with the 1976 total of $27,786,199, an increase of 60.2%. It must be remembered, of course, that the figures for potential premiums relate to commitments-to-insure that are issued on new business that is expected to result in policies being issued. However, experience has shown that for a variety of reasons there is a percentage of these loans that will not be completed and thus the insurance will not be issued. The Company has found that the general lapse rate on new commitments runs about 20% to 25%.

A comparison of potential premiums for various programs, between 1977 and 1976, follows.

Potential Premium	*1977*	*1976*
First Mortgages	$	$
Homeownership loans		
High-ratio	23,113,487	15,003,116
75% and less	2,037,947	2,040,586
Rental loans		
High-ratio	6,569,143	3,376,019
75% and less	579,982	232,484
Commercial/Industrial loans		
High-ratio	5,563,863	2,802,175
75% and less	3,316,295	2,428,313
Vacation Home loans	137,598	108,754
Second Mortgages		
Homeownership loans	94,262	76,374
Commercial/Industrial	15,898	—
Lease Guarantee Insurance	1,595,779	1,543,798
Condominium Deposit Insurance	37,002	174,580
New Home Warranty Insurance	1,453,006	—
Total Potential Premium	44,514,262	27,786,199

New Programs

MICC introduced a program of insurance for Interim Mortgage Loans, a coverage designed for first mortgages covering blocks of single family dwellings and a wide variety of income producing properties where the financing is arranged for short periods of up to three years. Such financing usually covers the project from commencement to completion of the development at which time the long term financing is put in place.

Also, MICC introduced a program of insurance covering second mortgages on income producing real estate. The purpose

of this program is to allow lenders to offer additional financing to their clients, without disturbing first mortgages already in place, that may have been reduced to a moderate loan to value ratio with a favourable interest rate. Both of these programs have experienced only limited participation to date.

New Home Warranty Programs

During the year MICC signed an insurance contract for the Ontario New Home Warranties Plan and as well it became the insurer for a new home warranty program in Quebec. Both of these programs offer a substantial guarantee to purchasers against loss arising from construction defects and also loss of deposit through builder bankruptcy. The Ontario coverage was in effect throughout the year and premiums of $1,421,506 were received.

Inclusion of deposit insurance in the Ontario Warranty Plan eliminated the need for continuation of the Company's condominium deposit insurance plan for new developments. This program recorded earned premiums of $107,333, with no losses in 1977.

Premiums from the Quebec Warranty Program where coverage became effective late in the year amounted to $31,500.

Underwriting Policy

It will be understood, of course, that the risks MICC is called upon to cover on various types of properties in various parts of the country necessitate a broad underwriting policy. This policy must not only take into account the particular qualities of the specific real estate being considered for insurance, but as well it must take into account the various strengths and weaknesses of the economy both nationally and locally. Thus, the Company must at all times exhibit a vigilant and responsible interpretation of these forces in dealing with the various risks that occur in real estate, while at the same time offering support to its lenders through insurance coverage that will be of assistance wherever possible. Changes that the Company does make in its underwriting policy from time to time are made in the light of trends and conditions that are seen to be developing. At all times, however, the Company stresses the fundamental basics of good underwriting, i.e. sound real estate, well located for its purpose; creditworthiness of the borrower; realistic debt load for the security (real estate and borrower); and this it will continue to do.

Approved Lenders and Correspondents

The Company added 78 new lender clients during the year. At year end Company records listed 352 Approved Lenders and 58 Approved Correspondents. The Approved Lenders list included 10 banks, 48 life insurance companies, 52 trust companies, 38 loan companies, 181 credit unions and caisses populaires, and 23 other type institutions.

Regional Offices

New offices were opened in London and Moncton in 1977. MICC now has a total of 12 Regional Offices across the country, improving still further service to MICC lenders. A complete listing of offices will be found on page 24.

Services to Lenders

There were 31,788 construction inspections carried out on new properties with mortgages being insured by MICC. In addition more lenders are using the Company's inspection services in the process of making progress advances. During the year MICC began to offer property appraisal services through some of its regional offices to further assist lenders and correspondents in their mortgage lending operations.

Defaults

The composite default ratio on all accounts for the year rose from 0.64% at the end of 1976 to 0.96% at year end. While ratios vary regionally across the country, generally this increase is attributed to the sluggish performance of the Canadian economy during the year and resultant increases in unemployment figures.

Losses On Claims Incurred

Losses on claims incurred on mortgage insurance during the year rose to $8,414,344 compared to $3,509,928 in 1976. Loss figures include provision for losses where claims have not yet been received but are anticipated. The level of losses, while of continuing concern to the Company, reflects in MICC's view the overall weakness of the Canadian economy, the continued high level of unemployment in many areas of Canada and the substantial increase of its insurance in force over the last three years. Generally, loss experience in those areas of the country that are enjoying a buoyant economy is minimal.

The Company's lease guarantee losses increased to $160,679 from $82,584 in 1976. At year end claims were being paid on 10 lease guarantee cases with losses totalling $24,015 per month. Default and claims loss experience over the past five years is shown on page 22.

Real Estate

During the year, 251 properties valued at $12,204,485 were acquired as a result of claims and 102 properties were sold for a total consideration of $4,934,100. At year end real estate was being carried in the books of account in the amount of $11,632,805 compared to $4,362,420 at year end 1976. The Company has 168 properties valued at $8,214,510 listed for sale while the remainder are being held temporarily for rental. It is Company policy to dispose of acquired real estate as quickly as possible; however, in some cases, listing of a property may be deferred until repairs are completed or until such time as local market conditions improve. The table on page 23 summarizes the Company's real estate holdings at year end.

During the year, the Company decentralized to selected regional offices some of the work relating to claims and to the management and sale of real estate acquired under claim. This has expedited the processing of claims and has improved service to lenders. Further decentralization will take place in 1978.

Investments

Investment strategy in 1977 was concerned with reducing exposure to long term bonds and preferred stocks and placing emphasis on cash and liquid assets. As can be seen in the portfolio presented below, long term bonds were

reduced to 4.7% of the portfolio from 9.7% in 1976 and preferred stocks to 29.8% from 36.2% in 1976, whereas, the position in common stock and convertible preferreds changed very little. The position in cash and liquid assets however, was raised to $67.6 million or 38.5% of the portfolio from 26.8% in 1976. Hence MICC is in a strong position to take advantage of opportunities that unsettled markets will probably present over the next 12 to 18 months.

As a result of generally lower interest rates in 1977 and a reduction in equity exposure to 56.8% of the portfolio from 63.5% in 1976, net after tax investment income expressed as a percentage of the average portfolio declined to 7.18% from 7.29% in 1976. The market value of the portfolio, as established by the Department of Insurance improved to 107.8% of cost from 101.7% in 1976.

The following table shows a classification of the portfolio at cost, as at December 31, 1977:

Classification	Cost 12/31/77	% of Total 1977	% of Total 1976
Cash	$ 1,654,205	0.9	0.4
Federal Government	56,843,184	32.4	23.0
Money Market	9,105,205	5.2	3.4
Cash and Liquid Assets	67,602,594	38.5	26.8
Long Bonds	8,284,483	4.7	9.7
Term Preferred	20,610,973	11.8	10.5
Sinking Fund Preferred	27,418,862	15.6	19.4
Conventional Preferred	4,350,504	2.5	6.3
Straight Preferred	52,380,339	29.9	36.2
Convertible Preferred	10,202,517	5.8	8.2
Common Stock	37,077,235	21.1	19.1
Common and Convertible Pfd.	47,279,752	26.9	27.3
Total Equity	99,660,091	56.8	63.5
	175,547,168	100.0	100.0

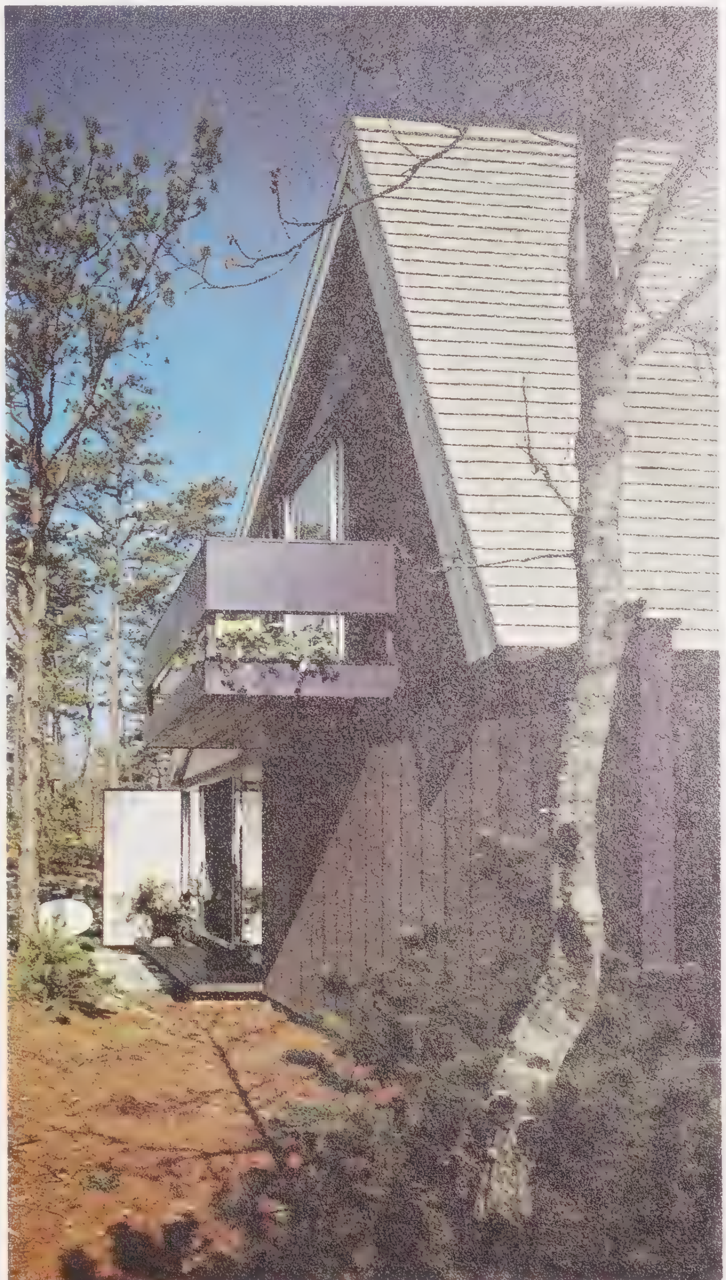
Financial

Total statutory assets of the company increased to $199,304,061 from $159,991,069 at December 31, 1976. Shareholders' equity increased to $95,199,064 including an increase of $4,000,000 in issued capital as a result of a subscription by the parent company for additional preferred shares.

The company's investment portfolio at cost increased by $29,312,152 to $175,547,168 as detailed elsewhere in this report. The company's investment in mortgages amounting to $1,972,576 at year end, consists of mortgages taken back in the course of selling properties acquired by claim settlement. It is the company's policy to sell such mortgages to mortgage investors and during the year mortgages having a book value of $1,116,284 were sold.

Expenses incurred during the year, other than claim losses, increased by 38.5% to $5,353,203. This increase reflects the substantial increase in premiums written during the year.

Application fees which are intended to substantially defray the cost of underwriting new business, increased from $1,440,688 in 1976 to $2,264,609.



MICC

Historical financial summary

(Note)

	1977	1976	1975	1974	1973
MICC Investments Limited					
Premiums written	$ 33,203,376	20,177,102	19,552,099	19,515,633	20,563,068
Premiums earned	$ 12,812,623	9,845,571	8,294,195	6,326,450	4,625,297
Application fees and other	$ 2,370,317	1,481,468	1,357,518	1,346,505	1,538,438
Underwriting revenue	$ 15,182,940	11,327,039	9,651,713	7,672,955	6,163,735
Investment income	$ 14,796,218	12,110,420	8,558,274	5,758,533	3,101,839
Claims losses	$ 8,809,506	3,990,855	2,842,978	848,962	257,889
as a % of underwriting revenue	58.02%	35.23%	29.5%	11.1%	4.2%
Expenses	$ 5,353,203	3,863,822	3,022,159	2,516,110	2,393,613
as a % of premiums written	16.12%	19.2%	15.5%	12.9%	11.6%
Net earnings, before realized investment gain/loss	$ 12,986,069	11,820,644	8,863,302	6,291,316	3,626,972
Shares outstanding (average)	$ 5,715,805	5,711,080	5,711,080	5,056,575	3,920,805
Earnings per share	$1.88	1.81	1.55	1.24	0.93
Total Assets	$221,755,996	167,560,020	124,981,531	88,836,756	65,827,358
Return on total assets	6.7%	8.1%	8.3%	8.1%	7.3%
Shareholders' Equity	$106,659,291	85,613,858	51,927,505	43,175,428	32,407,316
Return on common shareholders' equity	16.9%	17.7%	18.6%	16.6%	15.5%
Net after tax investment income expressed as a % of average investment portfolio	7.18%	7.29%	6.98%	5.63%	4.50%
The Mortgage Insurance Company of Canada					
Policyholders' reserves	$ 94,763,336	72,171,304	59,513,671	46,421,936	32,332,094
Capital	$ 95,199,064	83,712,795	61,396,071	43,096,140	30,331,977
Total capital and reserves	$189,962,400	155,884,099	120,909,742	89,518,076	62,664,071

Note: Certain figures have been restated from those shown in previous annual reports to reflect current reporting procedures.

Underwriting statistics

	1977	1976	1975	1974	1973
Approved lenders and correspondents					
Lenders	352	279	234	180	146
Correspondents	58	52	60	50	46
Total	410	331	294	230	192
Commitments to insure issued (Canadian business)(1)	$	$	$	$	$
Mortgage Insurance			(,000 omitted)		
First Mortgage Insurance Programs					
Homeownership Loans					
High-Ratio	2,349,001	1,528,189	1,447,704	1,484,782	1,792,815
75% and less	336,340	348,030	282,611	112,093	27,908
Rental Loans					
High-Ratio	456,095	233,347	226,254	163,007	256,483
75% and less	59,906	21,189	25,935	7,462	4,576
Commercial/Industrial Loans					
High-Ratio	237,330	121,622	121,193	107,010	[illegible]
75% and less	196,668	142,343	105,526	81,451	[illegible]
Vacation Home Loans	7,273	5,725	8,751	3,870	5,8[illegible]
Total	3,642,613	2,400,445	2,217,974	1,959,675	2,181,339
Second Mortgage Insurance Program					
Homeownership Loans					
High-Ratio	1,903	1,361	—	—	—
75% and less	1,234	1,207	—	—	—
Income Properties (rental and comm./ind.)	200	—	—	—	—
Total	3,337	2,568	—	—	—
Lease Guarantee Program	33,799	33,214	24,237	17,902	13,524
Total Potential Premium(2)	44,514	27,786	25,442	22,303	29,526
Average Loans	$	$	$	$	$
Homeownership Loans (High-Ratio)					
New Construction (per unit)	45,635	42,342	38,647	34,270	30,507
Existing Homes (per unit)	34,399	30,275	28,118	24,341	24,825
Rental Projects (per loan)	170,375	148,157	157,000	134,689	146,981
Commercial/Industrial (per loan)	359,590	319,916	310,100	326,072	203,728
Vacation Homes (per unit)	21,412	26,615	24,578	17,162	15,763
GDS and TDS ratios	%	%	%	%	%
Gross Debt Service Ratio (3)	23.9	24.8	24.5	23.9	23.1
Total Debt Service Ratio (4)	29.7	30.3	30.1	29.2	28.9
Insurance in force (Canadian Mortgage Insurance)					
At Year End (In Billions of Dollars)	8.4	7.0	5.7	3.6	2.2

Notes: (1) **Commitment Figures** are expressed in Gross Terms.
(2) **The Potential Premium Figure** represents the total premiums from all programs including new home warranty insurance (1977 $1,453,066) plus Condominium Deposit Insurance (1977 $37,002).
(3) **GDS Ratio** (Gross Debt Service Ratio) – the percentage of gross income used for mortgage payments and property taxes.
(4) **TDS Ratio** (Total Debt Service Ratio) – the percentage of gross income used for mortgage payments, property taxes and all other instalment debts.

Defaults and claims

Default ratios	1977 %	1976 %	1975 %	1974 %	1973 %
First Mortgage Insurance Programs					
Homeownership Loans					
High Ratio	1.02	0.68	0.72	0.38	0.29
75% and less	0.56	0.26	0.23	—	—
Rental Loans	0.95	0.86	0.52	1.59	—
Commercial and Industrial Loans	1.57	0.85	0.75	0.19	—
Vacation Home Loans	1.05	0.31	0.00	—	—
Second Mortgage Insurance Programs	0.49	0.00	—	—	—
Overall Default Ratio	0.96	0.64(1)	0.67	0.23	0.29

Note: (1) Revisions were made to the statistics for 1976, on which the default ratio was calculated. These changes have caused the overall default ratio for 1976 to be restated as .64% as opposed to .52% as reported in the 1976 annual report.

Claims losses	$	$	$	$	$
First Mortgage Insurance Programs			(,000 omitted)		
Homeownership Loans					
High Ratio	4,929	1,719	568	53	17
75% and less	72	52	—	—	—
Rental Loans	2,448	671	1,057	179	—
Commercial and Industrial Loans	966	1,068	139	7	—
Total Mortgage Insurance Losses from Canadian Operations(1)	8,414	3,510	1,764	239	17
Lease Guarantee Insurance Losses	161	83	22	20	4
New Home Warranty	137	—	—	—	—
U.S. Re-Insurance Losses	98	398	1,057	590	237
Total claims losses	8,810	3,991	2,843	849	258

Notes: (1) No claims losses were experienced in the **Vacation Home Insurance Program** and the **Second Mortgage Insurance Program.**

Real Estate

Real Estate Activity	Single Family No.	Single Family Book value	Rental No.	Rental Book value	Commercial and Industrial No.	Commercial and Industrial Book value	Total No.	Total Book value
		$		$		$		$
Held at December 31, 1976	45	1,091,310	19	2,036,110	2	1,235,000	66	4,362,420
Acquired during 1977	204	5,759,690	41	3,729,595	6	2,715,200	251	12,204,485
Sales and Adjustments during 1977	(102)	(2,778,810)	(19)	(2,201,790)	—	46,500	(121)	(4,934,100)
Held at December 31, 1977	147	4,072,190	41	3,563,915	8	3,996,700	196	11,632,805
Period held to December 31, 1977								
Less than 3 months	74	2,102,250	3	174,150	2	859,500	79	3,135,900
3 to 6 months	36	997,060	30	2,347,215	1	99,000	67	3,443,275
6 to 12 months	26	694,330	3	665,000	3	1,756,700	32	3,116,030
Over 12 months	11	278,550	5	377,550	2	1,281,500	18	1,937,600
	147	4,072,190	41	3,563,915	8	3,996,700	196	11,632,805

Real Estate Holdings as at December 31st, 1977	Single Family No.	Single Family Book value	Rental No.	Rental Book value	Commercial and Industrial No.	Commercial and Industrial Book value	Total No.	Total Book value
		$		$		$		$
Newfoundland	10	197,550	—	—	2	193,500	12	391,050
Prince Edward Island	—	—	—	—	—	—	—	—
New Brunswick	33	659,610	28	1,295,115	2	1,167,000	63	3,121,755
Nova Scotia	22	521,100	4	123,300	1	675,000	27	1,319,400
Quebec	26	868,500	8	1,570,500	1	1,000,000	35	3,439,000
Ontario	26	760,980	—	—	1	765,000	27	1,525,980
Manitoba	4	131,580	—	—	—	—	4	131,580
Saskatchewan	1	16,200	—	—	—	—	1	16,200
Alberta	1	38,700	—	—	1	196,200	2	234,900
British Columbia	24	877,970	1	575,000	—	—	25	1,452,940
Total	147	4,072,190	41	3,563,915	8	3,996,700	196	11,632,805

Head office

Suite 1212, 401 Bay Street, Toronto, Ontario M5H 2Y4

Accounting

D. C. Toms,
Secretary-Treasurer

W. Gunsolus,
Supervisor, Accounting

Miss L. Crowder,
Supervisor, Data Processing

Administration and personnel

J. W. Stewart,
Manager

G. J. Schnarr,
Assistant Manager, Administration

Miss M. E. Sparkes,
Assistant Manager, Payroll and Personnel

Business development

C. E. Locke, Director

G. J. Pennie
Business Development Officer (Ontario)

Claims and Real Estate

R. G. Bowden, Manager

J. J. Traill, Claims and Real Estate Officer

Construction inspection

E. D. Smith,
Chief Inspector

Investments

B. A. Morrison,
Assistant Vice-President, Investments

J. E. Rohr
Portfolio Manager

Underwriting

G. W. Carpentier
Assistant Vice-President and Chief Underwriter

C. E. Madden
Supervisor, Lease Guarantee

C. E. Shoemaker
Supervisor, Mortgage Insurance

Regional offices

Halifax

P.O. Box 876, Halifax Main Post Office, Suite 722, Cogswell Tower, Scotia Square, Halifax, Nova Scotia B3J 2V9
G. S. Morgan, Manager

Moncton

P.O. Box 1308
Suite 802
860 Main Street
Moncton, New Brunswick E1C 8T6
R. A. Dryden, Manager

Quebec

Main Floor, 1134 Chemin St-Louis, Place Sillery Nord
Quebec, P.Q. G1S 1E5
G. Bruneau, Manager

Montreal

Suite 504, 4 Place Ville Marie, Montreal, P.Q. H3B 2E7
J. D. Boudreau, Manager,
P. Sirois, Assistant Manager

Ottawa

Suite 610, 350 Sparks Street, Ottawa, Ontario K1R 7S8
S. J. Philippe, Manager,
G. J. Crepin, Assistant Manager

Toronto

P.O. Box 78, Suite 507, 401 Bay Street, Toronto, Ontario M5H 2Y4
J. G. McLean, Manager,
E. R. Weber, Assistant Manager

London

Suite 1416, 380 Wellington Street, London, Ontario, N6A 5B5
D. R. W. Stewart, Manager,
D. G. Marry, Assistant Manager

Winnipeg

Suite 1010, 330 Portage Avenue, Bank of Montreal Building, Winnipeg, Manitoba R3C 0C4
E. P. Wasslen, Manager

Regina

Suite 602, 1867 Hamilton Street, Regina, Saskatchewan, S4P 2C2
J. C. Borland, Manager

Calgary

Suite 918, Sun Oil Building, 500 - 4th Ave. S.W., Calgary, Alberta T2P 2V6
B. K. Masterson, Manager
H. Zindler, Business Development Officer (Alberta)

Edmonton

P.O. Box 7630, Postal Station 'A', Suite 1317, 10025 Jasper Avenue
Edmonton, Alberta T5J 2X7
P. D. R. Smith, Manager

Vancouver

Suite 1401, 1177 West Hastings St. Vancouver, B.C. V6E 2K3
K. G. Antaya, Manager
R. D. Gaboury, Assistant Manager
G. K. Bright, Business Development Officer (British Columbia)